Provision for Income Taxes

	1994	1993	Increase $	Increase %
Provision for income taxes	**$ 857**	$ 269	$ 588	–
Effective tax rate	**37.5%**	36.1%	–	–

The increase in the effective tax rate resulted primarily from the effects of discontinuing SFAS No. 71, an increase in 1994 income before income taxes and the 1993 restructuring charge, partially offset by the cumulative effect on deferred income taxes of the 1993 federally mandated increase in income tax rates.

Restructuring Charges The company's 1993 results reflect a $1 billion restructuring charge (pretax). The related restructuring plan (the "Plan") is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the Plan, the company is developing new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so that customers can have their telecommunications needs resolved with one phone call. The company is consolidating its existing 560 customer service centers into 26 centers in 10 cities and reducing its total work force by approximately 9,000 employees (including the remaining employee reductions associated with the restructuring plan announced in 1991).

Implementation of the Plan is expected to extend into 1997, rather than being completed in 1996 as originally scheduled. Implementation schedules are driven by customer demand and related service issues, concerns with system stability as major customer impacting systems are integrated, and staffing agreements negotiated with the company's unions. These changes do not alter the company's plan to fundamentally re-engineer the way it conducts business in the emerging competitive environment. The total cash expenditures of $935 under the Plan remain unchanged.

Following is a schedule of the costs included in the Plan:

	Actual		Estimate			
	1993	1994	1995	1996	1997	Total
Cash expenditures:						
Employee separation	$ –	$ 19	$ 62	$ 75	$ 74	$ 230
Systems development	–	127	144	129	–	400
Real estate	–	50	80	–	–	130
Relocation	–	21	54	4	31	110
Retraining and other	–	16	19	10	20	65
Total cash expenditures	–	233	359	218	125	935
Asset write-down	65	–	–	–	-	65
Total Plan	65	233	359	218	125	1,000
Remaining 1991 plan employee costs	–	56	–	–	–	56
Total (1)	$ 65	$ 289	$ 359	$ 218	$ 125	$1,056

(1) The Plan also provides for capital expenditures of $ 490 over the life of the restructuring plan. In 1994, capital expenditures related to restructuring were $ 265.

Employee separation costs include severance payments, health-care coverage and postemployment education benefits. Systems development costs include the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. The work-force reductions would not be possible without the development and installation of the new systems, which will eliminate the current, labor-intensive interfaces between existing processes. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation.

The company estimates that full implementation of the Plan will reduce employee-related expenses by approximately $400 per year. These savings are expected to be offset by the effects of inflation.

Employee Separation The following estimates of employee separations and related amounts reflect the extension of employee reductions into 1997.

	Estimate	Actual	Estimate			
	1994	1994(2)	1995	1996	1997	Total
Employee separations (1)						
Managerial	**1,061**	**497**	814	580	559	2,450
Occupational	**1,887**	**1,683**	1,136	1,845	1,886	6,550
Total	**2,948**	**2,180**	1,950	2,425	2,445	9,000

	Estimate	Actual	Estimate			
	1994	1994(2)	1995	1996	1997	Total
Employee separation amounts (1)						
Managerial	**$ 25**	**$ 5**	$ 30	$ 24	$ 21	$ 80
Occupational	**15**	**14**	32	51	53	150
Total	**40**	**19**	62	75	74	230
Remaining 1991 reserve	**56**	**56**	–	–	–	56
Total	**$ 96**	**$ 75**	$ 62	$ 75	$ 74	$ 286

(1) The "network" and "all other" categories previously displayed are no longer used in this schedule due to the changes in organizational boundaries occurring as a result of re-engineering. The new consolidated service centers consist of employees grouped by processes rather than by organization.

(2) Includes the remaining employees and the separation amounts associated with the balance of the 1991 restructuring reserve at December 31, 1993.

As a result of extending the Plan into 1997, employee separations and separation amounts shown above have been reduced by 1,519 and $41 in 1995, and 175 and $12 in 1996, respectively, and increased by 2,445 and $74, respectively, in 1997.

Systems Development USWC's existing information management systems were largely developed to support analog technology in a monopoly environment. These systems are increasingly inadequate due to the effects of increased competition, new forms of regulation and changing technology that have driven consumer demand for new services that can be delivered quickly, reliably and economically. The sequential systems currently in place are slow, labor-intensive and costly to maintain, and often cannot be adapted to support new product and service offerings, including future multimedia services envisioned by U S WEST.

The systems re-engineering program in place involves development of new systems for the following core processes:

Service delivery - to support service on demand for all products and services, including repair. These systems will permit one customer service representative to handle all facets of a customer's requirements as contrasted to the numerous points of customer interface required today.

Service assurance - for performance monitoring from one location and remote testing in the new environment, including identification and resolution of faults prior to customer impact, and one-system dispatch environment.

Capacity provisioning - for integrated planning of future network capacity, including the installation of software controllable service components.

The direct, incremental and non-recurring systems development costs contained in the Plan follow:

	Estimate	*Actual*	*Estimate*		
	1994	*1994*	*1995*	*1996*	*Total*
Service delivery	**$ 35**	**$ 21**	$ 15	$ 37	$ 73
Service assurance	**45**	**12**	17	35	64
Capacity provisioning	**17**	**57**	92	30	179
All other	**28**	**37**	20	27	84
Total	**$125**	**$127**	$144	$129	$400

Original estimates of system expenditures in 1995 and 1996 were $150 and $125, respectively. Though current estimates in total are not materially different, the timing and amount of expenditures by category has changed.

The majority of systems development labor will be supplied through the use of temporary employees, contractors and new employees with special skills. While it is likely that a small number of the new employees will be retained after completion of the Plan due to their specialized skills, it is planned that any related increase in headcount will be offset through other employee reductions.

Systems expenses charged to current operations at USWC consist of all costs associated with the information management function, including planning, developing, testing and maintaining databases for general purpose computers, in addition to systems costs related to maintenance of telephone network applications. The key related administrative (i.e. general purpose) systems include customer service, order entry, billing and collection, accounts payable, payroll, human resources and property records. Ongoing systems costs comprised approximately six percent of total operating expenses at USWC in 1994, 1993 and 1992. USWC expects systems costs charged to current operations as a percent of total operating expenses to approximate the current level throughout the life of the Plan. However, systems costs could increase relative to other operating costs as the business becomes more technology dependent.

Progress under the Plan Following is a schedule of progress achieved under the Plan in 1994:

	Expenditures	
	Estimate	*Actual*
Employee separation	$ 96	$ 75
Systems development	125	127
Real estate	119	50
Relocation	70	21
Retraining and other	36	16
Total	$ 446	$ 289

The company anticipated Plan expenditures of approximately $446 in 1994. However, the company slowed the pace of its restructuring implementation to address issues pertaining to the quality of service.

The company's 1991 restructuring plan included a pretax charge of $364 due to planned work-force reductions and the write-off of certain intangible and other assets. The portion of the 1991 restructuring charge related to work-force reductions was $240, and covered approximately 6,000 employees. All expenditures and work-force reductions associated with the 1991 plan were completed by the end of 1994.

Competitive Environment Rapid technological and regulatory changes continue to bring about actual and projected competition in the company's markets including local, access and long-distance. Current and potential competitors include local telephone companies, interexchange companies, competitive access providers ("CAPs"), cable television companies and future providers of PCS, the next generation of wireless communications.

USWC's principal current competitors are CAPs. Competition from CAPs is largely limited to providing large business customers (with high traffic volume) private line access to the facilities of interexchange carriers. In coming years, CAPs also could become significant competitors for other local exchange services. Teleport Communications Group Inc., for example, has announced its intention to offer competitive local services. AT&T's entrance into the cellular communications market through its acquisition of McCaw Cellular Communications Inc. also has the potential to create increased competition in local exchange as well as wireless services. The company believes that competitors will target business customers in densely populated, urban areas in offering local exchange services. The loss of local exchange customers to competitors will affect multiple revenue streams of the company and could have a material, adverse effect on the company's operations.

The actions of public policymakers play an important role in determining how increased competition affects U S WEST. The company is working with regulators and legislators to help ensure that public policies keep pace with the rapidly changing industry — and allow the company to bring new services to the marketplace.

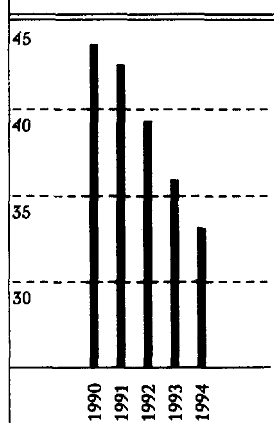
U S WEST Competitive Strategy U S WEST's corporate mission is to be a leading provider of interactive communications, entertainment and information services over wired multimedia and wireless networks in selected local markets worldwide. U S WEST will deploy its own and others' wired and wireless communications, entertainment and information services in packages tailored to customer needs. The company will implement its competitive strategy both domestically and internationally by focusing on three key objectives, or "value drivers": 1) growth through the development of multimedia networks and a broadened wireless presence; 2) customer loyalty through continuous improvement in customer service; and 3) improved productivity through systems re-engineering and other cost controls.

U S WEST "Value Drivers"

Base Businesses In 1993, the company announced its intention to build a high speed, interactive multimedia network in major metropolitan markets in the U S WEST region. This network will position USWC to compete with other providers of communications, entertainment and information services. USWC began limited testing of its multimedia network in Omaha, Neb., in December 1994. A market trial will begin in 1995 in an area that will cover up to 50,000 homes. The market trial will offer consumers a variety of integrated services in addition to traditional cable television and telephone services. These include video-on-demand, video games, interactive shopping and other services. The results of the technical and market trials will be incorporated in the network configuration and future service offerings.

The 1993 re-engineering program supports U S WEST's objective to improve customer service, increase productivity and continue to narrow its cost of service disadvantage with current and potential competitors. Employee-related costs comprise approximately 45 percent of the total operating costs of U S WEST. The company will continue its efforts to control these costs, primarily through systems improvements and reductions in staffing. At USWC, the number of employees per 10,000 access lines decreased by 7.7 percent in 1994, to 33.1, and has dropped 24 percent since 1990.

USWC Employees Per 10,000 Access Lines



Developing Businesses U S WEST continues to expand its customer base and strengthen its national out-of-region presence by acquiring or forming alliances with other communications, entertainment and information services companies.

Domestic Cable On December 6, 1994, U S WEST purchased the Atlanta Cable Properties that serve approximately 486,000 subscribers, including 275,000 premium service subscribers. The Atlanta Cable Properties serve about 65 percent of the cable customers in the metropolitan Atlanta area. U S WEST plans to eventually offer local exchange telecommunications in addition to multimedia services in Atlanta.

U S WEST and TWE have begun a five-year project to upgrade a substantial portion of TWE's cable systems to "Full Service Network" ("FSN") capacity. U S WEST and TWE are designating the systems to be upgraded and sharing management control over those systems. The partnership encountered initial delays on the market trial of the FSN in Orlando in order to make additional refinements to the underlying systems software and set-top terminals. In December 1994, TWE introduced the FSN trial in Orlando, Fla. TWE expects to link 4,000 homes by the end of 1995. U S WEST believes that each FSN, when completed, will provide consumers a wide variety of services, including video-on-demand, interactive games, distance learning, full-motion video, interactive shopping, alternative access and local telephone service. The FSN trial will allow TWE to refine the technology, and determine the level and nature of customer demand for services. This knowledge will assist in lowering the cost of the technology and the roll-out of interactive services across the country.

Domestic Wireless On July 25, 1994, AirTouch Communications ("AirTouch") and U S WEST announced an agreement to combine their domestic cellular operations. The joint venture will have a presence in nine of the top 20 cellular markets in the country. The initial equity ownership of the wireless joint venture will be approximately 70 percent AirTouch and 30 percent U S WEST. However, the companies will share governance responsibilities. This joint venture will provide U S WEST with an expanded wireless presence and economies of scale. The transaction is expected to close in second quarter 1995 after obtaining federal and state regulatory approvals. Each company's cellular operations initially will continue operating as separate entities owned by the individual partners, but will receive support services on a contract basis from a joint wireless management company.

The merger of the two companies' domestic cellular operations will take place upon the earlier of four years from July 25, 1994, the lifting of certain MFJ restrictions, or at AirTouch's option. The agreement gives U S WEST strategic flexibility, including the right to exchange its interest in the joint venture for up to 19.9 percent of AirTouch common stock, with any excess amounts to be received in the form of AirTouch non-voting preferred stock. A partnership committee, led by the president and chief operating officer of AirTouch and three other AirTouch representatives, three U S WEST representatives and one mutually agreed upon independent representative will oversee the companies' combined domestic cellular operations.

On December 5, 1994, a partnership formed by the AirTouch/U S WEST joint venture and the Bell Atlantic/NYNEX partnership began bidding on PCS licenses being auctioned by the FCC. The combined companies own cellular licenses in 15 of the 20 largest U.S. cities and serve over five million customers. The partnership, known as PCS PrimeCo, is eligible to bid for PCS licenses in 26 markets, representing more than 100 million potential customers. This entity will be governed by a board made up of three members from the Bell Atlantic/NYNEX partnership and three members from the AirTouch/U S WEST joint venture. A second partnership will develop a national branding and marketing strategy and a common "look and feel" – for both cellular and PCS customers. This entity will be governed by a board made up of three members from the Bell Atlantic/NYNEX partnership, three from the AirTouch/U S WEST joint venture and one independent board member. The cellular properties of Bell Atlantic/NYNEX will not be merged with those of AirTouch/U S WEST.

PCS will triple the spectrum available for wireless services, including new services such as two-way messaging from pocket pagers and wireless transfers of large computer files from laptop computers. The new spectrum also will help cellular operators create seamless networks.

International In the international arena, U S WEST is focusing on certain strategic businesses, primarily in wireless communications, and combined cable television and telephone networks. The company's net investment in international ventures is approximately $988 (inclusive of consolidated entities), 68 percent of which is invested in the U.K. The U.K. market is attractive because of high population density, the opportunity to provide multiple services over one network and a low rate of cable television penetration.

TeleWest, a venture with Tele-Communications Inc. in the U.K., is the largest provider of combined cable television and telephone service in the world. TeleWest owns all or part of 23 franchises, encompassing 3.6 million homes. The combined services are provided over a multimedia network that has been designed to provide a wide range of interactive and integrated communications, entertainment and information services as they become available. Through TeleWest, U S WEST has gained experience in packaging video and telephone services that it utilizes in other parts of the world. In November 1994, TeleWest sold a 24.4 percent interest to the public, which resulted in U S WEST's 37.8 percent ownership interest. Based on the offering price, U S WEST's share of TeleWest was valued at $1.1 billion, compared with U S WEST's net investment prior to the offering of approximately $300.

In the U.K., Mercury One-2-One, a 50-50 joint venture between U S WEST and Cable & Wireless plc, launched the world's first PCS in 1993. Mercury One-2-One's PCS is a digital cellular communications service designed to offer consumers higher quality service, increased privacy and more features at lower prices than existing, analog cellular communications systems. To meet growing customer demand, Mercury One-2-One has expanded its coverage to reach 30 percent of the U.K. population.

During 1994, the company expanded its international investments. The company purchased 100 percent of Thomson Directories for $94. Thomson Directories publishes 155 telephone directories that reach 80 percent of the households in Great Britain. The company acquired 49 percent of Listel, a Brazilian company that publishes telephone directories, and acquired a 20 percent interest in Binariang Sdn Bhd, a Malaysian telecommunications company that holds four licenses that enable it to become a second-network operator in Malaysia. The company also became a 25-percent partner in Mobiltel, a consortium awarded the 900 GSM license in Bulgaria. In early 1995, U S WEST, Time Warner Inc., TWE Japan, Itochu Corporation and Toshiba Corporation formed a venture to build cable systems in Japan. U S WEST will own 17 percent of the new venture.

The company's 1995 commitment to existing international ventures is approximately $400. The company will continue to pursue opportunities in attractive local markets around the world that fit its strategic objectives. U S WEST is concentrating on opportunities where it can attain at least a number-one or -two market share in each market the company targets.

Federal Regulatory Issues U S WEST supports regulatory reform at all levels. While certain federal courts have recently ruled as unconstitutional some laws governing local exchange carrier activities, the legal and regulatory framework under which the company operates limits both competition and consumer choice. The limitations include restrictions on equipment manufacturing, the provisioning of cable television programming content, and restrictions on the transport of communications, entertainment and information across LATA boundaries. U S WEST believes that national telecommunications regulatory reform may be the only effective way to resolve the related issues and satisfy competing interests.

Congress failed to pass telecommunications reform legislation in 1994. It is expected that new telecommunications legislation will be introduced in 1995. However, there is uncertainty concerning the scope and direction of that legislation. U S WEST believes it is in the public interest to lift all competitive restrictions, placing all competitors under the same rules. Such action would lead to wider consumer choices, and ensure the industry's technological development and long-term financial health.

During 1994 and early 1995, a number of federal regulatory issues were ruled on in the courts:

• In January 1995, the 9th U.S. Circuit Court of Appeals in San Francisco upheld the June 15, 1994, Seattle Federal District Court ruling that affirmed U S WEST's challenge to the constitutionality of the telephone company video programming restriction in the 1984 Cable Act. The act prevents telephone companies from providing video programming within their regions. U S WEST argued, and the courts agreed, that the restriction violates its First Amendment right to free speech. The decision would allow the company to provide video programming directly to its regional telephone subscribers. The Federal Government can appeal to the U.S. Supreme Court. The company is evaluating its options in light of this ruling. In January 1995, the FCC instituted a proceeding to modify and promulgate rules on the provision of video programming.

• In January 1995, the U.S. Circuit Court of Appeals for the District of Columbia overruled the FCC's "range-of-rates" decision. This FCC decision permitted non-dominant carriers to file ranges for rates, rather than specific price points. The Court of Appeals held that the Communications Act requires all carriers to specify prices on their tariffs. The effect of this decision will be to require non-dominant carriers (like MCI, or Time Warner's Full Service Network) to file tariffs with considerably more price detail.

• In October 1994, the 9th U.S. Circuit Court of Appeals overruled the FCC's Computer III non-structural separation decision for the provision of enhanced services on an integrated basis. The effect of the decision is to return to the provision of such service through a separate subsidiary, which could make it more difficult for local exchange carriers to offer enhanced services. In January 1995, the FCC granted a waiver allowing for the continued provision of enhanced services, pending further proceedings by the FCC.

• In August 1994, the U.S. Circuit Court of Appeals for the District of Columbia upheld an FCC ruling that neither telephone companies nor customer programmers need to obtain a franchise from local governments to provide Video Dial Tone ("VDT") service. The decision means that local telephone companies will avoid additional franchise fees related to the provisioning of VDT services.

• In June 1994, the U.S. Circuit Court of Appeals for the District of Columbia overturned the FCC's requirement that local telephone companies allow physical collocation by third parties (competitive access providers), within their central offices, for the installation and operation of equipment that connects to the local telephone network. The decision essentially affirms the private-property rights of corporations. The court also ordered the FCC to reconsider its requirement that allows competitors to interconnect equipment to the local network from a point outside a central office. In light of the rulings the company is evaluating how it can provide future interconnection services.

In September 1994, the Department of Justice ("DOJ") granted U S WEST's request for two MFJ waivers relating to TWE and the Atlanta Cable Properties. The waivers will allow U S WEST to provide video and information services across LATA boundaries in the Atlanta Cable Properties and TWE service areas. The waivers also will allow U S WEST to participate in limited manufacturing and to provide equipment through its partnership in TWE.

On June 20, 1994, the seven regional Bell operating companies ("RBOCs") asked the divestiture court for a waiver of the Court's restriction on the RBOCs' provision of wireless long-distance services. The consent decree restricts the RBOCs from providing long-distance services as well as manufacturing. The request for a waiver closely follows a recommendation by the DOJ that the RBOCs be allowed to provide wireless long-distance services.

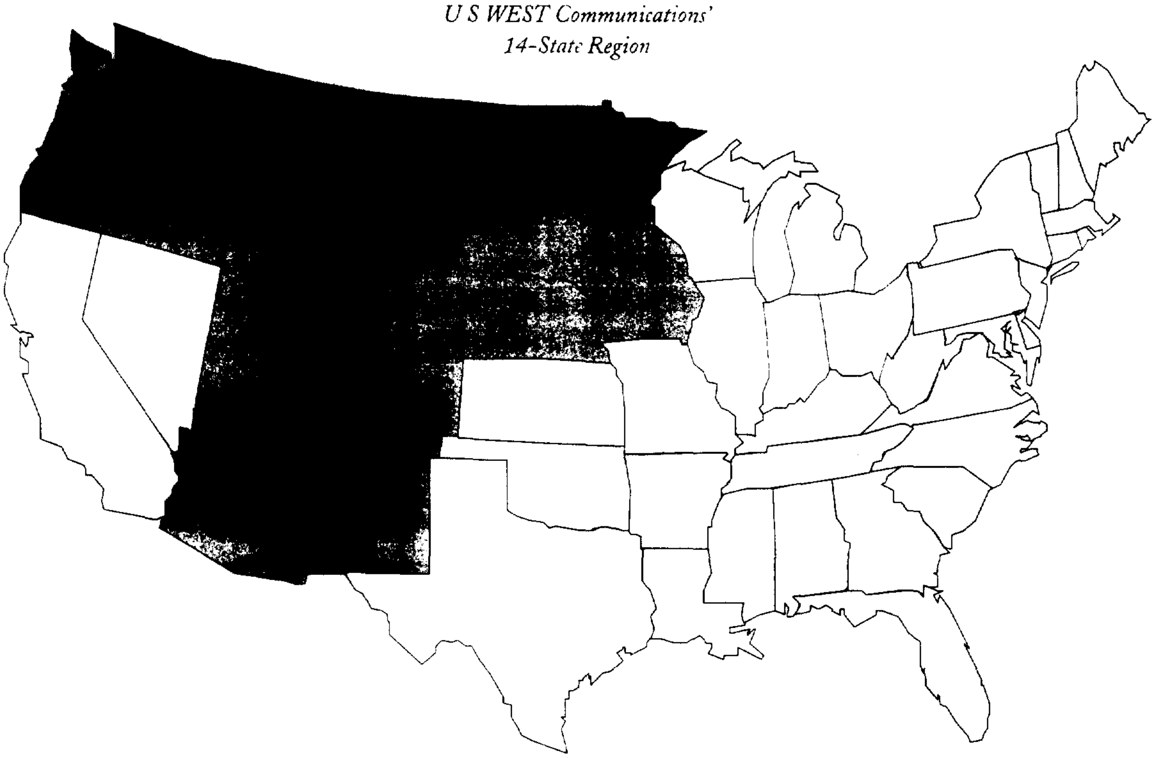
The FCC has adopted a regulatory structure known as "Open Network Architecture" ("ONA"), under which USWC is required to unbundle its telephone network services in a manner that will accommodate the service needs of the growing number of information service providers. Under ONA, the number of local exchange service competitors could increase significantly.

U S WEST's interstate services have been subject to price cap regulation since January 1991. Price caps are a form of incentive regulation designed to limit prices rather than profits. The price cap plan is currently under review by the FCC.

State Regulatory Issues USWC has sought alternative forms of regulation ("AFOR") plans that provide for competitive parity, enhanced pricing flexibility and improved capability in bringing to market new products and services. In a number of states where AFOR plans have been adopted, such actions have been accompanied by agreements to refund revenues, reduce existing rates or upgrade service, any of which could have adverse short-term effects on earnings. Similar results may have occurred under traditional rate-of-return regulation. In addition to the FCC price cap plan, USWC has AFOR plans in the states of Minnesota, Colorado, Oregon, Idaho, Nebraska, North Dakota and South Dakota.

At USWC, there are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing certain exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The PSC's initial order denied a refund request from an interexchange carrier and other parties that relates to the Tax Reform Act of 1986. This case is still in the discovery process. If a formal filing – made in accordance with the remand from the Supreme Court – alleges that the exceptions apply, the range of possible risk is $0 to $140.

U S WEST Communications' 14-State Region



Discontinued Operations In 1994, U S WEST continued to make progress in disposing of its Capital Assets segment in accordance with its plan of disposition announced in June 1993. (Further details on the discontinued operations are provided in *"Results Of Operations - 1993 Compared with 1992"* and in Note 17 to the Consolidated Financial Statements.)

During 1994, U S WEST reduced its ownership interest in Financial Security Assurance ("FSA"), a member of the Capital Assets segment, to 60.9 percent, and its voting interest to 49.8 percent through a series of transactions. In May and June 1994, U S WEST sold 8.1 million shares of FSA, including 2.0 million shares sold to Fund American Enterprises ("FFC"), in an initial public offering of FSA common stock at $20 per share. U S WEST received $154 in net proceeds from the offering. On September 2, 1994, U S WEST issued to FFC 50,000 shares of cumulative redeemable preferred stock for a total of $50. FFC's voting interest in FSA is 21.0 percent, achieved through a combination of direct share ownership of common and preferred FSA shares, and a voting trust agreement with U S WEST.

FFC has a right of first offer and a call right to purchase from U S WEST up to 9.0 million shares, or approximately 57 percent, of outstanding FSA stock held by U S WEST. U S WEST anticipates its ownership will be further reduced by 1996.

During 1994, U S WEST Real Estate sold 12 buildings, six parcels of land and other assets for approximately $327. In January 1995, U S WEST Real Estate sold one property for approximately $37. The sales were in line with company estimates. U S WEST has completed all construction of existing buildings in the commercial real estate portfolio and expects to substantially complete the liquidation of its portfolio by 1998. The remaining balance of assets subject to sale is approximately $607, net of reserves.

The company believes its reserves related to discontinued operations are adequate.

Liquidity and Capital Resources

Operating Activities Cash provided by operating activities of approximately $3.2 billion was essentially unchanged as compared with 1993. Improvement in operations in 1994 was largely offset by cash payments for restructuring activities of $289, compared with $120 in 1993. Growth in cash from operations will be limited in the near term as the company continues to implement its restructuring plan. Cash from operations is the primary source by which U S WEST funds its capital expenditures and shareholder dividends. Further details of cash provided by operating activities are provided in the Consolidated Statements of Cash Flows.

The company expects that cash from operations will fund a significant share of expected future requirements for existing businesses. U S WEST will continue to employ strategic alliances and also will make direct investments in assets or businesses that are consistent with the company's business strategies. Financing for new investments will primarily come from a combination of new debt and equity. In the event of a new investment of substantial magnitude, the company also may reevaluate its use of internally generated cash, the feasibility of further acquisitions, the possibility of sales of assets and the capital structure.

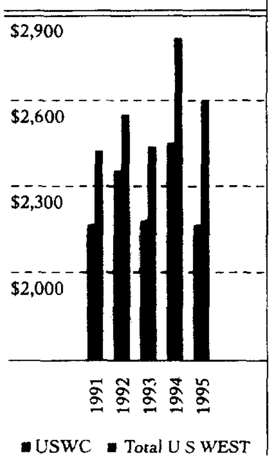
U S WEST consists of many different parts having different financial characteristics. For this and other reasons, U S WEST believes that its stock price has been undervalued. Consequently, the company is evaluating a range of actions it might take with regard to its capital structure to make the value of its assets more apparent.

Investing Activities Total capital expenditures were $2,820 in 1994 and $2,441 in 1993. Capital expenditures at USWC were $2,454 in 1994 and $2,182 in 1993. The 1994 capital expenditures of USWC were devoted substantially to the continued modernization of telephone plant, including investments in fiber optic cable, in order to improve customer service and network productivity. In 1995, capital expenditures are expected to approximate $2.6 billion, including $2.1 billion at USWC.

U S WEST's cash investment related to the December 1994 acquisition of the Atlanta Cable Properties was $745, obtained through short-term borrowing. U S WEST also invested approximately $444 in developing international businesses in 1994, including the acquisition of Thomson Directories. The company anticipates investments in international ventures to approximate $400 in 1995.

In 1994, U S WEST received cash proceeds of $143 from the sale of its paging operations and $93 from the sale of certain rural telephone exchanges. U S WEST did not receive cash from the partial sale of its joint venture interest in TeleWest. All proceeds from the sale will be used by TeleWest for general business purposes, including financing construction and operations costs, and repaying debt.

Capital Expenditures Actual and Projected
(Dollars in millions)



Financing Activities Debt increased by $739 compared to the prior year, primarily due to the acquisition of the Atlanta Cable Properties. U S WEST's year-end 1994 debt-to-capital ratio was 51.8 compared with 55.1 at December 31, 1993. Including debt related to discontinued operations, the debt-to-capital ratio was 55.5 and 59.7 at December 31, 1994 and 1993, respectively. The decrease in the debt-to-capital ratio is primarily attributable to higher net income and the effects of an increase in common shares outstanding.

In conjunction with the acquisition of the Atlanta Cable Properties, on December 6, 1994, 12,779,206 shares of U S WEST common stock valued at $459 were issued to, or in the name of, the holders of Wometco Cable Corp. Subsequent to the acquisition, the company announced its intention to purchase U S WEST common shares in the open market up to an amount equal to those issued in conjunction with the acquisition, subject to market conditions. In December 1994, the company purchased 550,400 shares of U S WEST common stock for approximately $20.

In March 1994, the company issued approximately 5.5 million shares of U S WEST common stock for proceeds of $210 in conjunction with the settlement of shareowner litigation. The company also contributed 4.6 million shares of U S WEST common stock to the company's postretirement benefit fund in 1994.

The company maintains short-term lines of credit aggregating approximately $1.9 billion, all of which were available at December 31, 1994. Under registration statements filed with the Securities and Exchange Commission, as of December 31, 1994, U S WEST companies are permitted to issue up to approximately $1.8 billion of new debt securities. U S WEST also maintains a commercial paper program to finance short-term cash flow requirements, as well as to maintain a presence in the short-term debt market.

Discontinued Operations Cash to discontinued operations primarily reflects the payment of debt, net of $154 in proceeds from the sale of 8.1 million shares of FSA stock. Debt related to discontinued operations decreased by approximately $200 in 1994. (See Note 17 to the Consolidated Financial Statements.) For financial reporting purposes this debt is netted against the related assets of discontinued operations.

Risk Management The company is exposed to market risks arising from changes in interest rates and foreign exchange rates. Derivative financial instruments are used by the company to manage these risks.

Interest Rate Risk Management The objective of the company's interest rate risk management program is to minimize the total cost of debt. To meet this objective the company uses risk-reducing and risk-adjusting strategies. Interest rate forward contracts were used in 1993 to reduce the debt issuance risks associated with interest rate fluctuations. Interest rate swaps are used to adjust the risks of the debt portfolio on a consolidated basis by varying the ratio of fixed- to floating-rate debt. The market value of the debt portfolio and its risk-adjusting derivative instruments are monitored and compared to predetermined benchmarks to evaluate the effectiveness of the risk management program.

In 1993, the company refinanced $2.7 billion of callable debt with new, lower-cost fixed-rate debt. The company achieved an annual interest expense reduction of approximately $35 as a result of this refinancing. In conjunction with the refinancing, the company executed forward contracts to sell U.S. Treasury securities to reduce debt issuance risks and to lock in the cost of $1.5 billion of the future debt issue. At December 31, 1994, deferred credits of $8 and deferred charges of $51 on closed interest rate forward contracts are included as part of the carrying value of the underlying debt. The deferred credits and charges are being recognized as a yield adjustment over the life of the debt, which matures at various dates through 2043. The net deferred charge is directly offset by the lower coupon rate achieved on the new debt.

Notional amounts on interest rate swaps outstanding at December 31, 1994, were $1.6 billion with various maturities that extend to 2004. The estimated effect of the company's interest rate derivative transactions was to adjust the level of fixed-rate debt from 73.1 percent to 81.5 percent of the total debt portfolio (including continuing and discontinued operations).

Foreign Exchange Risk Management The company has entered into forward and combination option contracts to manage the market risks associated with fluctuations in foreign exchange rates after considering offsetting foreign exposures among international operations. The use of forward and option contracts allows the company to fix or cap the cost of firm foreign investment commitments in countries with freely convertible currencies. The market values of the foreign exchange positions, including the hedging instruments, are continuously monitored and compared to predetermined levels of acceptable risk.

Notional amounts of forward and combination option contracts in British pounds outstanding at December 31, 1994, were $170, with maturities within one year. Cumulative deferred credits and charges associated with forward and option contracts of $7 and $25, respectively, are recorded in common shareowners' equity at December 31, 1994.

At December 31, 1994, the company also had a British pound-denominated receivable from a wholly owned subsidiary in the translated principal amount of $48 that is subject to foreign exchange risk. This position is hedged in 1995.

RESULTS OF OPERATIONS – 1993 COMPARED WITH 1992

	1993 (1)	1992	Increase (Decrease)
Income from continuing operations	$ 476	$ 1,076	$ (600)
Income (loss) from discontinued operations	(82)	103	(185)
Extraordinary items:			
Discontinuance of SFAS No. 71, net of tax	(3,123)	–	(3,123)
Early extinguishment of debt, net of tax	(77)	–	(77)
Cumulative effect of change in accounting principles	–	(1,793)	1,793
Net loss	$(2,806)	$ (614)	$(2,192)
Earnings per common share from continuing operations	$ 1.13	$ 2.61	$ (1.48)
Earnings (loss) per common share from discontinued operations	(.19)	.25	(.44)
Extraordinary items:			
Discontinuance of SFAS No. 71	(7.45)	–	(7.45)
Early extinguishment of debt	(.18)	–	(.18)
Cumulative effect of change in accounting principles	–	(4.35)	4.35
Loss per common share	$ (6.69)	$ (1.49)	$ (5.20)

(1) 1993 income from continuing operations was reduced by $610, or $1.46 per share, for a restructuring charge, and $54, or $.13 per share, for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates.

In 1993, income from continuing operations was $476, including the items in note (1) to the table above. Excluding these one-time effects, 1993 income from continuing operations and related earnings per share were $1,140 and $2.72, respectively. As normalized, 1993 income from continuing operations increased $64, or 6.0 percent, over 1992 and related earnings per share increased $.11, or 4.2 percent. The increase was primarily attributable to improvements in telephone, domestic cellular and publishing operations, and lower financing costs, partially offset by increased losses associated with developing businesses.

During 1993, the U S WEST board of directors approved a plan to dispose of the Capital Assets segment, which includes activities related to financial services, financial guarantee insurance operations and real estate. The Capital Assets segment has been accounted for as discontinued operations in accordance with Accounting Principles Board Opinion No. 30, which provides for the reporting of the operating results of discontinued operations separately from continuing operations. The company recorded a provision of $100 (after tax), or $.24 per share, for the estimated loss on disposal of the discontinued operations and an additional provision of $20 to reflect the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates. Income from discontinued operations to June 1, 1993, was $38, net of $15 in income taxes. Income from discontinued operations subsequent to June 1, 1993, is being deferred and was included within the provision for loss on disposal of the Capital Assets segment.

An extraordinary, non-cash charge of $3.1 billion (after tax) was incurred in conjunction with U S WEST's decision to discontinue accounting for the operations of USWC in accordance with SFAS No. 71. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, competition notwithstanding, by charging its customers at prices established by its regulators. U S WEST's decision to discontinue the application of SFAS No. 71 was based on the belief that competition, market conditions and technological advances, more than prices established by regulators, will determine the future cost recovery by USWC. As a result of this change, the remaining asset lives of USWC's telephone plant were shortened to more closely reflect the useful (economic) lives of such plant. USWC's accounting and reporting for regulatory purposes were not affected by the change.

During 1993, USWC refinanced long-term debt issues aggregating $2.7 billion in principal amount. These refinancings allowed the company to take advantage of favorable interest rates. Extraordinary costs associated with the redemptions reduced 1993 income by $77 (after tax).

The accounting change in 1992 relates to two accounting standards issued by the Financial Accounting Standards Board. The first is SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," which mandates that employers reflect in their current expenses an accrual for the cost of providing retirement medical and life insurance benefits to current and future retirees. Prior to 1992, U S WEST, like most corporations, recognized these costs as they were paid. U S WEST also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS No. 112 requires that employers accrue for the estimated costs of benefits, such as workers' compensation and disability, provided to former or inactive employees who are not eligible for retirement. Adoption of SFAS Nos. 106 and 112 resulted in a one-time, non-cash charge against 1992 earnings of $1,793, net of tax, including $53 related to SFAS No. 112.

Revenue growth and continued cost controls in 1993 resulted in a 6.7 percent increase in EBITDA, excluding the effects of the 1993 restructuring charge.

Income from Continuing Operations – Base and Developing Businesses

	Percent Ownership	1993 (1)	1992 (2)	Increase (Decrease)
Base businesses:				
U S WEST Communications Inc.	100	$ 435	$ 950	$ (515)
Publishing and other	100	180	207	(27)
Total base		615	1,157	(542)
Developing businesses:				
Consolidated:				
Domestic wireless	100	(46)	(17)	(29)
Unconsolidated equity investments:				
Time Warner Entertainment L.P. (2)	25.5	(19)	–	(19)
TeleWest Communications plc	50.0	(21)	(13)	(8)
Mercury One-2-One	50.0	(22)	(9)	(13)
Other (3)		(31)	(42)	11
Total developing		(139)	(81)	(58)
Income from continuing operations		$ 476	$ 1,076	$ (600)

(1) 1993 income from continuing operations was reduced by $610 for a restructuring charge, and $54 for the cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates.

(2) Percent ownership represents pro-rata priority capital and residual equity interests.

(3) Includes divisional expenses associated with developing businesses.

During 1993, income from the company's base operations increased to $1,237, excluding the effects of the 1993 restructuring charge and the cumulative effect in 1993 of the increase in income tax rates. This represents an increase of $80, or 6.9 percent, over 1992. The increase is attributable to higher demand for telephone services, including the effects of growth in access lines, and continued cost controls, partially offset by lower prices.

The loss from developing businesses increased as a result of the company's 1993 TWE investment and higher losses associated with international ventures.

Sales and Other Revenues

	1993	1992	Increase (Decrease) $	%
Base businesses:				
USWC operations:				
Local service	$ 3,829	$ 3,674	$ 155	4.2
Access charges - interstate	2,147	2,047	100	4.9
Access charges - intrastate	682	673	9	1.3
Long-distance network service	1,442	1,420	22	1.5
Other services	556	510	46	9.0
Total USWC	8,656	8,324	332	4.0
Publishing and other	1,070	1,092	(22)	(2.0)
Total base	9,726	9,416	310	3.3
Developing businesses: (1)				
Domestic wireless	561	407	154	37.8
International directories	7	–	7	–
Total developing	568	407	161	39.6
Total revenues	$ 10,294	$ 9,823	$ 471	4.8

(1) Includes consolidated subsidiaries. All other developing businesses are accounted for using the equity method.

An analysis of the change in USWC's revenues follows:

Local Service

Price Changes	Refund Activity	Demand	Other	Increase $	%
$(6)	$(11)	$176	$(4)	$155	4.2

The increase in local service revenues was primarily attributable to access line growth of 3.7 percent in 1993.

Interstate Access Charges

Price Changes	Refund Activity	Demand	Other	Increase $	%
$(71)	$6	$175	$(10)	$100	4.9

Increased demand for interstate services, as evidenced by an increase of 8.5 percent in interstate billed access minutes of use, more than offset the effects of price decreases. USWC reduced its annual interstate access prices by approximately $60, effective July 1, 1993, in addition to $90, effective July 1, 1992, primarily due to FCC-mandated changes that resulted in a cost shift to intrastate jurisdictions.

Intrastate Access Charges

Price Changes	Refund Activity	Demand	Other	Increase $	%
$(18)	$8	$19	-	$9	1.3

Intrastate access charges increased primarily as a result of increased demand and lower refunds, largely offset by the effects of price decreases.

Long-Distance Network Service

Price Changes	Refund Activity	Demand	Other	Increase $	Increase %
$(7)	$(1)	$31	$(1)	$22	1.5

The increase in long-distance network service revenues reflects business growth, partially offset by the impacts of competition, particularly in Wide Area Telephone Service and "800" services, and price decreases.

Other Services Other services revenues increased 9.0 percent in 1993 due to increased revenue from billing and collection services and continued market penetration in voice messaging services.

Publishing and Other

	1993	1992	Decrease $	Decrease %
Publishing	$ 949	$ 949	–	–
Other - net	121	143	$ (22)	(15.4)
Total	$ 1,070	$ 1,092	$ (22)	(2.0)

Revenue for the entire publishing and other group was reduced by approximately $86 in 1993 due to the sale of certain publishing and telephone equipment distribution operations. Revenues from ongoing operations increased $64, or 5.9 percent, primarily as a result of price increases related to publishing activities. Volume of Yellow Pages directory advertising was essentially flat in 1993.

Developing Businesses

	1993	1992	Increase $	Increase %
Domestic wireless	$ 561	$ 407	$ 154	37.8
International directories	7	–	7	–

Domestic wireless revenues increased as a result of an expanded cellular customer base, which grew by 45 percent during 1993. This growth reflects increased penetration and a migration to the retail distribution channel. Average cellular revenue declined by 5.6 percent to approximately $76 per customer, per month. Revenue from international directories reflects the 1993 start up of U S WEST Polska, a publisher of directories in Poland.

Costs and Expenses

	1993	1992	Increase (Decrease) $	Increase (Decrease) %
Employee-related expenses	$ 3,584	$ 3,487	$ 97	2.8
Other operating expenses	2,065	1,995	70	3.5
Taxes other than income taxes	417	378	39	10.3
Depreciation and amortization	1,955	1,881	74	3.9
Restructuring charge	1,000	-	1,000	-
Interest expense	439	453	(14)	(3.1)
Equity losses in unconsolidated ventures	74	43	31	72.1
Other income (expense) - net	(15)	(17)	(2)	(11.8)

Employee-related expenses at USWC increased by $41, or 1.4 percent, over 1992. This increase was attributable to basic wage increases, increased overtime costs (affected by flood damage in the midwestern states) and costs incurred for temporary employees in conjunction with customer service initiatives. These factors were partially offset by the effects of work-force reductions, primarily in conjunction with the company's 1991 restructuring plan. During 1993, USWC reduced its employee level by 2,755 employees. The work-force reductions and the company's emphasis on health-care cost containment through managed care and other programs, and earnings on the amounts funded for postretirement benefit costs, resulted in a decline in health-care costs of approximately $25 in 1993. Growth in the company's domestic wireless business also contributed to the increase in employee-related expenses.

Other operating expenses increased by $56, or 3.5 percent, at USWC as a result of higher network software costs and increased advertising expenses. Higher marketing costs related to an expanding domestic cellular subscriber base also contributed to the increase in other operating expenses, partially offset by lower expenses due to the sale of certain publishing and telephone equipment distribution operations.

Taxes other than income taxes increased due in part to adjustments made in 1992 for resolution of certain longstanding appeals.

Depreciation and amortization expense increased $71, or 4.1 percent, at USWC as a result of a higher depreciable asset base and increased rates of depreciation. These effects were partially offset by the completion of depreciation reserve deficiency amortization programs in several jurisdictions.

Interest expense decreased principally due to the effects of lower interest rates, partially offset by increased debt of approximately $1.8 billion used to fund new initiatives, including the investment in TWE. U S WEST's average borrowing cost decreased to 6.7 percent in 1993, from 7.7 percent in 1992.

Equity losses associated with developing businesses increased to $74, compared with $43 in 1992. The increase in these losses is primarily due to new investments in 1993, including the company's investment in Mercury One-2-One.

Provision for Income Taxes

			Decrease	
	1993	*1992*	*$*	*%*
Provision for income taxes	$ 269	$ 493	$(224)	(45.4)
Effective tax rate	36.1%	31.4%	–	–

The increase in the effective tax rate resulted primarily from the $54 cumulative effect on deferred taxes of the 1993 federally mandated increase in income tax rates and the effects of discontinuing SFAS No. 71, partially offset by the tax effects of the restructuring charge.

Please refer to *"Results of Operations - 1994 Compared with 1993"* for a discussion of the 1993 restructuring charge.

Discontinued Operations During 1993, U S WEST sold $2.0 billion of finance receivables and the business of U S WEST Financial Services to NationsBank Corporation. The sales price was in line with the company's estimate. Proceeds from the sale of $2.1 billion were used to repay related debt.

During 1993, U S WEST Real Estate Inc. sold five properties for proceeds of approximately $66.

Liquidity and Capital Resources Cash provided by operating activities decreased by $35 over 1992, primarily due to a $200 increase in postretirement benefit funding, partially offset by an income tax refund in 1992 of approximately $125, and growth in base businesses.

Debt increased by approximately $1.8 billion compared with 1992 (including $1.2 billion of short-term debt), principally as a result of the company's investment in TWE. During 1993, U S WEST refinanced debt issues aggregating $2.7 billion in principal amount. This refinancing has reduced interest expense by approximately $35 annually. During 1992, U S WEST called for early redemption of six debt issues aggregating $747 in principal amount.

Debt related to discontinued operations decreased by approximately $1.9 billion in 1993. The decrease was related to the 1993 sale of the assets and the business of U S WEST Financial Services to NationsBank.

Total capital expenditures associated with continuing operations were $2,441 in 1993 and $2,554 in 1992. Capital expenditures at USWC were $2,182 in 1993 and $2,357 in 1992. The 1993 capital expenditures of USWC were substantially devoted to the continued modernization of telephone plant.

During fourth quarter 1993, proceeds of $1,020 resulting from the sale of 22 million shares of common stock were used to reduce short-term indebtedness, including indebtedness incurred in conjunction with the TWE investment, and for general corporate purposes.

REPORT OF MANAGEMENT

The Consolidated Financial Statements of U S WEST have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The integrity and objectivity of information in these financial statements, including estimates and judgments, are the responsibility of management, as is all other financial information included in this report.

U S WEST maintains a system of internal accounting controls designed to provide a reasonable assurance as to the integrity and reliability of financial statements, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes an internal audit program designed to assess objectively the effectiveness of internal controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls based on the recognition that the cost of the system should not exceed the benefits derived. U S WEST believes that the company's system provides reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent certified public accountants, whose report is included herein, are engaged to express an opinion on our Consolidated Financial Statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Audit Committee of the board of directors. The Audit Committee is composed of outside directors who meet regularly with management, internal auditors and independent auditors to review financial reporting matters, the scope of audit activities and the resolution of audit findings.

Richard D. McCormick
Chairman and Chief Executive Officer

James M. Osterhoff
Executive Vice President and Chief Financial Officer
January 18, 1995

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners of U S WEST Inc.:
We have audited the accompanying consolidated balance sheets of U S WEST Inc. as of December 31, 1994 and 1993 and the related consolidated statements of operations, cash flows and shareowners' equity for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U S WEST Inc. as of December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 5 to the Consolidated Financial Statements, the company discontinued accounting for the operations of U S WEST Communications Inc. in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1993. As discussed in Note 14 to the Consolidated Financial Statements, the company changed its method of accounting for postretirement benefits other than pensions and other postemployment benefits in 1992.

Coopers & Lybrand L.L.P.
Denver, Colorado
January 18, 1995

Consolidated Statements of Operations

Dollars in millions (except per share amounts)

Year Ended December 31,	1994	1993	1992
Sales and other revenues	$ 10,953	$ 10,294	$ 9,823
Employee-related expenses	3,779	3,584	3,487
Other operating expenses	2,203	2,065	1,995
Taxes other than income taxes	412	417	378
Depreciation and amortization	2,052	1,955	1,881
Restructuring charge	–	1,000	–
Interest expense	442	439	453
Equity losses in unconsolidated ventures	121	74	43
Gains on sales of assets:			
Partial sale of joint venture interest	164	–	–
Rural telephone exchanges	82	–	–
Paging assets	68	–	–
Other income (expense) - net	25	(15)	(17)
Income from continuing operations before income taxes	2,283	745	1,569
Provision for income taxes	857	269	493
Income from continuing operations	1,426	476	1,076
Discontinued operations:			
Estimated loss from June 1, 1993 through disposal, net of tax	–	(100)	–
Income tax rate change	–	(20)	–
Income, net of tax (to June 1, 1993)	–	38	103
Income before extraordinary items and cumulative effect of change in accounting principles	1,426	394	1,179
Extraordinary items:			
Discontinuance of SFAS No. 71, net of tax	–	(3,123)	–
Early extinguishment of debt, net of tax	–	(77)	–
Cumulative effect of change in accounting principles:			
Transition effect of change in accounting for postretirement benefits other than pensions and other postemployment benefits, net of tax	–	–	(1,793)
Net income (loss)	$ 1,426	$ (2,806)	$ (614)
Earnings (loss) per common share:			
Continuing operations	$ 3.14	$ 1.13	$ 2.61
Discontinued operations:			
Estimated loss from June 1, 1993 through disposal	–	(0.24)	–
Income tax rate change	–	(0.04)	–
Income (to June 1, 1993)	–	0.09	0.25
Extraordinary items:			
Discontinuance of SFAS No. 71	–	(7.45)	–
Early extinguishment of debt	–	(0.18)	–
Cumulative effect of change in accounting principles	–	–	(4.35)
Earnings (loss) per common share	$ 3.14	$ (6.69)	$ (1.49)
Average common shares outstanding (thousands)	453,316	419,365	412,518

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheets

Dollars in millions

December 31,	1994	1993
Assets		
Current assets:		
Cash and cash equivalents	$ 209	$ 128
Accounts and notes receivable, less allowance for credit losses of $62 and $54, respectively	1,693	1,570
Inventories and supplies	189	193
Deferred tax asset	352	336
Prepaid and other	323	273
Total current assets	2,766	2,500
Property, plant and equipment - net	13,997	13,232
Investment in Time Warner Entertainment	2,522	2,552
Intangible assets - net	1,858	514
Investment in international ventures	881	477
Net assets of discontinued operations	302	554
Other assets	878	851
Total assets	$ 23,204	$ 20,680
Liabilities and Shareowners' Equity		
Current liabilities:		
Short-term debt	$ 2,837	$ 1,776
Accounts payable	944	977
Employee compensation	367	386
Dividends payable	251	236
Current portion of restructuring charges	337	456
Other	1,278	1,150
Total current liabilities	6,014	4,981
Long-term debt	5,101	5,423
Postretirement and postemployment benefit obligations	2,502	2,699
Deferred income taxes	890	201
Unamortized investment tax credits	231	280
Deferred credits and other	1,033	1,235
Preferred stock subject to mandatory redemption	51	-
Common shareowners' equity:		
Common shares - no par, 2,000,000,000 authorized; 476,880,420 and 448,126,801 issued; 469,343,048 and 441,139,829 outstanding, respectively	8,056	6,996
Cumulative deficit	(458)	(857)
LESOP guarantee	(187)	(243)
Foreign currency translation adjustments	(29)	(35)
Total common shareowners' equity	7,382	5,861
Total liabilities and shareowners' equity	$ 23,204	$ 20,680
Contingencies (see Note 16 to the Consolidated Financial Statements)		

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dollars in millions

Year Ended December 31,	1994	1993	1992
Operating Activities			
Net income (loss)	**$ 1,426**	$ (2,806)	$ (614)
Adjustments to net income (loss):			
Discontinuance of SFAS No. 71	–	3,123	–
Cumulative effect of change in accounting principles	–	–	1,793
Restructuring charge	–	1,000	–
Depreciation and amortization	**2,052**	1,955	1,881
Gains on sales of assets:			
Partial sale of joint venture interest	**(164)**	–	–
Rural telephone exchanges	**(82)**	–	–
Paging assets	**(68)**	–	–
Equity losses in unconsolidated ventures	**121**	74	43
Discontinued operations	–	82	(103)
Deferred income taxes and amortization of investment tax credits	**373**	(225)	4
Changes in operating assets and liabilities:			
Restructuring payments	**(289)**	(120)	(98)
Accounts and notes receivable	**(104)**	(90)	44
Inventories, supplies and other	**(81)**	(56)	(24)
Accounts payable and accrued liabilities	**(10)**	238	133
Other - net	**67**	47	198
Cash provided by operating activities	**3,241**	3,222	3,257
Investing Activities			
Expenditures for property, plant and equipment	**(2,597)**	(2,449)	(2,250)
Investment in Time Warner Entertainment	–	(1,557)	–
Investment in Atlanta Cable Properties	**(745)**	–	–
Investment in international ventures	**(350)**	(230)	(173)
Proceeds from disposals of property, plant and equipment	**96**	45	75
Proceeds from sale of paging assets	**143**	–	–
Other - net	**(119)**	(10)	91
Cash (used for) investing activities	**(3,572)**	(4,201)	(2,257)
Financing Activities			
Net proceeds from short-term debt	**1,280**	687	25
Proceeds from issuance of long-term debt	**251**	2,282	344
Repayments of long-term debt	**(526)**	(2,969)	(770)
Dividends paid on common stock	**(886)**	(812)	(796)
Proceeds from issuance of common stock	**364**	1,150	92
Proceeds from issuance of preferred stock	**50**	–	–
Purchase of treasury stock	**(20)**	–	–
Cash provided by (used for) financing activities	**513**	338	(1,105)
Cash provided by (used for) continuing operations	**182**	(641)	(105)
Cash (to) from discontinued operations	**(101)**	610	(237)
Cash and Cash Equivalents			
Increase (decrease)	**81**	(31)	(342)
Beginning balance	**128**	159	501
Ending balance	**$ 209**	$ 128	$ 159

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Shareowners' Equity

Dollars in millions

Year Ended December 31,	1994	1993	1992
Common Shares			
Beginning balance	**$ 6,996**	$ 5,770	$ 5,607
Issuance of common stock	**694**	1,224	144
Settlement of litigation	**210**	–	–
Benefit trust contribution (OPEB)	**185**	–	-
(Purchase) issuance of treasury stock	**(20)**	6	20
Other	**(9)**	(4)	(1)
Ending balance	**8,056**	6,996	5,770
(Cumulative Deficit) Retained Earnings			
Beginning balance	**(857)**	2,826	4,316
Net income (loss)	**1,426**	(2,806)	(614)
Dividends declared ($2.14, $2.14 and $2.12 per share, respectively)	**(980)**	(905)	(876)
Market value adjustment for securities	**(64)**	35	–
Other	**17**	(7)	–
Ending balance	**(458)**	(857)	2,826
LESOP Guarantee			
Beginning balance	**(243)**	(294)	(342)
Activity	**56**	51	48
Ending balance	**(187)**	(243)	(294)
Foreign Currency Translation Adjustments			
Beginning balance	**(35)**	(34)	7
Activity	**6**	(1)	(41)
Ending balance	**(29)**	(35)	(34)
Total Common Shareowners' Equity	**$ 7,382**	$ 5,861	$ 8,268
Common Shares Authorized at December 31 (Thousands)	**2,000,000**	2,000,000	2,000,000
Common Shares Outstanding (Thousands)			
Beginning balance	**441,140**	414,462	409,936
Issuance of common stock	**18,647**	26,516	3,948
Settlement of litigation	**5,506**	–	–
Benefit trust contribution (OPEB)	**4,600**	–	–
(Purchase) issuance of treasury stock	**(550)**	162	578
Ending balance	**469,343**	441,140	414,462

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1994, 1993 and 1992 (Dollars in Millions, Except Per Share Amounts)

1

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Consolidated Financial Statements include the accounts of U S WEST Inc. ("U S WEST" or "company") and its majority-owned subsidiaries, except for discontinued operations as discussed in Note 17 to the Consolidated Financial Statements. All significant intercompany amounts and transactions have been eliminated. Investments in less than majority-owned ventures are accounted for using the equity method.

In the third quarter of 1993, U S WEST discontinued accounting for its regulated telephone operations, hereafter referred to as U S WEST Communications ("USWC"), under Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." (See Note 5 to the Consolidated Financial Statements.)

U S WEST operates in one industry segment (Communications and Related Services) as defined in SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." The company's Capital Assets segment has been discontinued.

The largest volume of the company's services are provided to AT&T. During 1994, 1993 and 1992, revenues related to those services provided to AT&T were $1,130, $1,160 and $1,203, respectively. Related accounts receivable at December 31, 1994 and 1993 totaled $98 and $97, respectively.

Certain reclassifications within the Consolidated Financial Statements have been made to conform to the current year presentation.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

Inventories and Supplies: New and reusable materials of USWC are carried at average cost, except for significant individual items that are valued based on specific costs. Non-reusable material is carried at its estimated salvage value. Inventories of U S WEST's non-telephone operations are carried at the lower of cost or market on a first-in, first-out basis.

Property, Plant and Equipment: The investment in property, plant and equipment is carried at cost, less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Costs for normal repair and maintenance of property, plant and equipment are charged to expense as incurred.

USWC's provision for depreciation of property, plant and equipment is based on various straight-line group methods using remaining useful (economic) lives based on industrywide studies. Prior to discontinuing SFAS No. 71, depreciation was based on lives specified by regulators. (See Note 5 to the Consolidated Financial Statements.) When the depreciable property, plant and equipment of USWC is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

The non-telephone operations of U S WEST provide for depreciation using the straight-line method. When such depreciable property, plant and equipment is retired or sold, the resulting gain or loss is recognized currently as an element of other income.

Depreciation expense was $2,029, $1,941 and $1,857 in 1994, 1993 and 1992, respectively.

Interest related to qualifying construction projects is capitalized and is reflected as a reduction of interest expense. At USWC, prior to discontinuing SFAS No. 71, capitalized interest was included as an element of other income. Amounts capitalized by U S WEST were $44, $20 and $29 in 1994, 1993 and 1992, respectively.

Intangible Assets: The costs of identified intangible assets and goodwill are amortized by the straight-line method over periods ranging from five to 40 years. These assets are evaluated, with other related assets, for impairment using a discounted cash flow methodology. Amortization expense was $23, $14 and $24 in 1994, 1993 and 1992, respectively.

Foreign Currency Translation: For international investments, assets and liabilities are translated at year-end exchange rates, and income statement items are translated at average exchange rates for the year. Resulting translation adjustments are recorded as a separate component of common shareowners' equity.

Revenue Recognition: Local telephone service, cellular access and cable television revenues are generally billed monthly, in advance, and revenues are recognized the following month when services are provided. Revenues derived from other telephone services, including exchange access, long-distance and cellular airtime usage, are billed and recorded monthly as services are provided.

Directory advertising revenues and related directory costs are generally deferred and recognized over the period during which directories are utilized, normally 12 months. The balance of deferred directory costs included in prepaid and other is $217 and $197 at December 31, 1994 and 1993, respectively.

Financial Instruments: Net interest income or expense on interest rate swaps is recognized over the life of the swaps as an adjustment to interest expense. Gains and losses on forward contracts, designated as hedges of interest rate exposure on debt refinancings, are deferred and recognized as an adjustment to interest expense over the life of the underlying debt. Gains and losses on foreign exchange forward, option, and combination option contracts, designated as hedges, are included in common shareowners' equity and recognized in income on sale of the investment.

Computer Software: The cost of computer software, whether purchased or developed internally, is charged to expense with two exceptions. Initial operating systems software is capitalized and amortized over the life of the related hardware, and initial network applications software is capitalized and amortized over three years. Subsequent upgrades to capitalized software are expensed. Capitalized computer software of $146 and $148 at December 31, 1994 and 1993, respectively, is recorded in property, plant and equipment. The company amortized capitalized computer software costs of $86, $51 and $24, in 1994, 1993 and 1992, respectively.

Income Taxes: The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods in accordance with SFAS No. 109. U S WEST implemented SFAS No. 109, "Accounting for Income Taxes," in 1993. Adoption of the new standard did not have a material effect on the financial position or results of operations, primarily because of the company's earlier adoption of SFAS No. 96.

For financial statement purposes, investment tax credits of USWC are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

Earnings (Loss) Per Common Share: Earnings (loss) per common share are computed on the basis of the weighted average number of shares of common stock outstanding during each year.

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NOTE 2: ACQUISITION OF ATLANTA CABLE PROPERTIES

On December 6, 1994, U S WEST acquired the stock of Wometco Cable Corp. and subsidiaries, and the assets of Georgia Cable Holdings Limited Partnership and subsidiary partnerships (the "Atlanta Cable Properties"), for cash of $745 and 12,779,206 U S WEST common shares valued at $459, for a total purchase price of approximately $1.2 billion. The Atlanta Cable Properties' results of operations have been included in the consolidated results of operations since the date of acquisition.

The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to assets acquired (primarily identified intangibles) based on their estimated fair values.

The identified intangibles and goodwill are being amortized on a straight-line basis over 25 years.

Following are summarized, consolidated, unaudited, pro forma results of operations for U S WEST for the years ended December 31, 1994 and 1993, assuming the acquisition occurred as of the beginning of the respective periods:

Year Ended December 31,	***1994***	*1993*
Revenue	**$11,148**	$10,494
Net income (loss)	**1,415**	(2,817)
Earnings (loss) per common share	**3.04**	(6.52)